

To print: Select **File** and then **Print** in your browser pull-down menus.

TheStreet.com

Christopher Edmonds

Insider Selling by Enron Execs Speaks Louder Than Their Words

By Christopher Edmonds

Special to TheStreet.com

7/20/01 7:32 AM ET

URL: <http://www.thestreet.com/funds/chriedmonds/1496696.html>

At **Enron** (ENE:NYSE), actions are speaking differently than words.

At the same time as Enron Chairman Ken Lay and Enron President and CEO Jeff Skilling were touting their company's stock as undervalued, both were in the process of selling hundreds of thousands of shares.

In an exclusive interview with *TheStreet.com* last November, Lay suggested that Enron stock -- then trading in the mid-\$70s at nearly 50 times earnings -- was undervalued. "Comfortable that it's worth that [50 times earnings], yes," he said. "As a matter of fact, some of us here and, of course, many analysts would maintain that even that is undervaluing the company."

Yet, since the beginning of the year, Lay has simultaneously exercised and sold nearly 400,000 shares, continuing a program of exercising options and selling the shares that dates back to last November. This year's sales were all at prices below the November prices at which he said the shares were undervalued. According to data compiled by Thomson Financial/First Call, Lay's options transactions occurred between \$52.95 and \$82 a share.

In February, Lay stepped down as Enron's CEO, retaining the title of chairman.

Skilling's words and actions were similar. During a January analysts and investors meeting in Houston, Skilling said he believed Enron stock was worth \$126 a share. At the same time, he was in the middle of completing sales of 130,000 shares of Enron stock he registered in November 2000. Since January, Skilling has registered for sale an additional 270,000 shares of Enron. And since the first of the year, he has sold stock at between \$52.95 and \$80.57 a share.

Both Lay and Skilling still hold large positions in Enron. As of May 30, Lay and his family reportedly owned more than 2.66 million shares, and Skilling controlled more than 1.1 million shares. They each acquired more than 100,000 shares from the company in January.

Enron spokesperson Mark Palmer says the sales are "program sales" that involve the exercise of expiring options and the sale of stock to cover the costs and tax liability, a common practice among executives at many major corporations.

And, Palmer notes that Enron's compensation makes such sales almost routine. "A very significant portion of senior management's compensation is paid in equity," he says.

Mixed Messages

**GOVERNMENT
EXHIBIT**

24276

Crim No. H 04-0025

Analysts and investors worry about the messages such high-level insider sales send, especially when at the same time executives are touting the stock's appealing value. "Certainly, it's a concern to see the chief executive selling so aggressively," says Jeff Dietert, an analyst at Simmons & Co., a Houston energy investment boutique and a member of the TSC Energy Roundtable. "Especially when they are saying the stock is undervalued. That sends a very mixed message to investors."

While acknowledging Enron's unique equity-based compensation program, Dietert says recent selling at the top is unique. "You constantly see a regular group of people selling as they monetize their compensation" at Enron, he says. "However, the larger sales from senior executives are different. Sales have been weighted much more heavily to Lay and Skilling than they have been in the past."

Dietert's 12-month price for Enron is \$58, and his firm has not provided banking services to Enron. Simmons does not rate companies.

Another analyst who asked not to be named was more critical. "The [insider sales] are disconcerting to say the least. In a market like this where the slightest indication of lack of confidence sends a stock down precipitously, their actions are speaking louder than their words."

Dream vs. Reality

One reason for the mixed messages may have been the company's belief in broadband. At the time Skilling made his now famous \$126 tout, he indicated that nearly \$40 of value would come from Enron's now flailing broadband business. As my colleagues Adam Lashinsky and Peter Eavis have aptly chronicled, Enron's great dream for broadband turned into a nightmare.

"The world certainly looks a lot different today than it did in January, especially to Enron," says Tom McIntyre, president of Dessauer & McIntyre Asset Management, a Massachusetts-based investment adviser. "You sure don't see projections from anyone assigning value to broadband now." In fact, on Enron's second-quarter earnings call, Skilling lamented the fact that investors seem to be assigning negative value to the company's telecom operations. McIntyre holds a long position in Enron.

Still, investors might have expected Skilling's words to be backed by his actions. When he made the bullish comments in January, Skilling was selling stock even though the shares were trading near \$80 a share, a 57% discount to his target price. That led the analyst to quip, "If it's not an expensive stock, why are they out there selling it?"

To others, however, the sales are just noise that distracts from a solid growth story. "You would prefer it if they would never sell," says McIntyre. "I'd rather watch them hold the shares like I do. However, [Skilling] still owns well over a million shares, and the consistent sales suggest they have a program to sell whether the stock is near its high or at its lows." (Records show that Skilling has been selling 10,000 shares each week since mid-November.)

The two executives "have a long record of creating and sustaining value for shareholders. I have a high level of confidence that Skilling can continue that record," McIntyre said.

But appearances count. "It's a question of perceptions," says McIntyre. "In this market, anything can get a company, and the insider-sales news does hurt."

That's especially true when actions and words don't mesh. As the analyst quipped, "It's what they call an oxymoron. You are saying one thing and doing another."

Christopher S. Edmonds is president of Resource Dynamics, a private financial consulting firm based in Atlanta. At time of publication, neither Edmonds nor his firm held positions in any securities mentioned in this column, although holdings can change at any time. Under no circumstances does the information in this column represent a recommendation to buy or sell stocks. While Edmonds cannot provide investment advice or recommendations, he welcomes your feedback and invites you to send it to Chris Edmonds.
